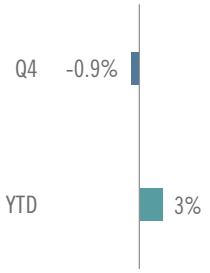
PICTET
1805

Hedge Funds Market Update

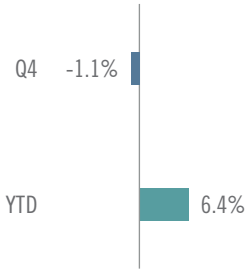
Q4 2021

For professional investors only

Pictet Alternative Advisors



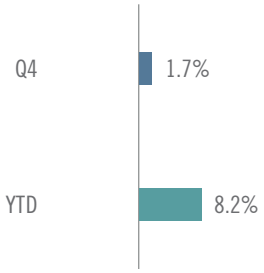
HFRI Macro: Discretionary



HFRI Macro: Systematic

MACRO

The quarter was challenging for the discretionary Macro strategy. In October managers were hit when the flattening of the yield curve disrupted the popular bet that long-term yields will rise more quickly than shorter-term ones as the world economy continues to recover from the pandemic. Keeping a reflationary outlook through steepeners, this positioning generated losses following a hawkish turn by the BoE governor, a movement which then spread to other developed regions. Commodities, with long positions across the energy complex were generally a source of gains. In December risk levels were brought down due to a lack of visibility from central banks, the impact of the omicron variant and year end lack of liquidity. Systematic trading managers had a mixed quarter. The strategy started the quarter in positive territory but the situation deteriorated as prevailing trends in equities, fixed income and commodities all reversed sharply during November. At the end of the year, most traditional trend-followers registered losses as gains in equity indices were outweighed by losses in the remaining asset classes. In contrast, managers focusing on more niche markets or employing a multi-strategy approach in the quantitative space were able to finish in positive territory for the month and for the year.

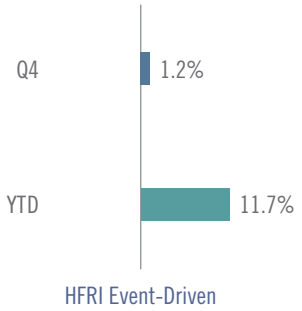


HFRI Equity Hedge

EQUITY HEDGE

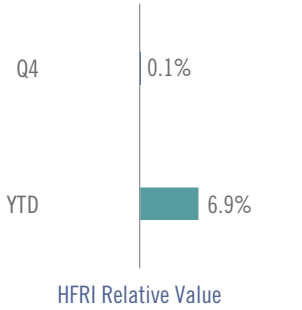
After a sharp decline in November, developed-market equities hit a new record high at the end of December, brushing off worries of the new Covid variant Omicron. Despite the strong returns for the broad market indices, Equity Hedge managers across the board suffered from sharp rotations in several segments of the Technology market amid rising bond yields. This rotation impacted all regions but it was especially difficult to navigate for specialists on the technology sector, irrespective of their level of net exposure. Managers with a bias towards cyclicals and growth underperformed, whereas managers with a market neutral stance or a value bias generally performed better.

EVENT DRIVEN



During the fourth quarter, Event-Driven managers did well across its spectrum of activists, special situations and merger arbitrage managers. Activist managers benefitted from idiosyncratic stories as well as from the tailwind of a positive equity market backdrop in December. A traditional rush to get deals done before the end of the year saw more than $500 billion in transactions announced in December alone. Merger arbitrage specialists also benefited from a spreads compression thanks to US presidential election relief rally and Covid19 vaccine news. Some of the largest transactions include Home Depot acquiring its former subsidiary, HD Supply Holdings at a 28% premium in November (approx. $9bn transaction) and Advanced Micro Devices Inc. buying Xilinx Inc. Within credit-related Event-Driven managers, high-yield bonds provided their strongest returns of 2021 in December as concerns around the Omicron variant receded. Overall, US default activity was extremely modest in 2021, with 13 companies defaulted and debt totalling $10.4bn in bonds and loans, while an additional 8 companies completed distressed transactions totalling $2.6bn. The yearly combined amount of $13.0bn inclusive of distressed exchanges ranks as the lightest in a calendar year since $4.5bn defaulted in 2007.

RELATIVE VALUE



Relative Value managers produced mixed results over the reporting period. At the beginning of the quarter, inflation overshoot and the unexpected change in tone by central banks triggered a sharp move up at the front end of the US, UK and European yield curve, thereby impacting steepeners positions. Volatility on the front end soared too, which hurt managers with short positions hedged with volatility further down the curve. Overall, multi-portfolio managers with a significant equity exposure performed well, with healthcare, materials, consumer staples and industrials leading the gains. Healthcare in particular was a good source of profit mainly thanks to the short side as some biotechnology names dropped due to several clinical trial data announcements that failed to meet desired endpoints. SPAC arbitrage ended the year as the worst strategy. Discount to trust value widened across the board as the market had difficulty in digesting the continuing flow of new deals and as muted price reaction following deal announcement disappointed investors.

Pictet Alternative Advisors (PAA) is a leading European alternative investment specialist with expertise in manager selection and portfolio management in liquid alternatives, private equity and real estate. PAA is an independent unit of the Pictet Group. Founded in 1991, we currently manage over USD 30 billion and our team is composed of 100 people.

Pictet Alternative Advisors
Route des Acacias 60
1211 Genève 73
+41 58 323 23 23

www.alternatives.pictet